

Message Text

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PAGE 01 OTTAWA 00596 160100Z

ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 ITC-01 PA-01
PRS-01 /104 W

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R 152243Z FEB 77

FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 2470
INFO AMCONSUL TORONTO
AMCONSUL MONTREAL
AMCONSUL CALGARY

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E.O. 11652: N/A

TAGS: ENRG, CA

SUBJ: INTERPROVINCIAL PIPELINE TARIFF INCREASE

1. SUMMARY. THE NATIONAL ENERGY BOARD (NEB) HAS ANNOUNCED THAT AN ADDITIONAL 15 CENT INTERIM TARIFF HAS BEEN AUTHORIZED FOR THE SARNIA-MONTREAL EXTENSION OF THE INTERPROVINCIAL PIPELINE (IPL). IN ASENCE FURTHER GOC ACTION THIS WILL DESTROY EQUILIBRIUM IN IMPORT COMPENSATION PROGRAM AND PROVIDE INCENTIVE TO IMPORT MORE OFFSHORE OIL INTO MONTREAL. GOC WILL PROBABLY SUBSIDIZE IPL IN AMOUNT OF INTERIM TARIFF PENDING FINAL RULING ON RATES BY NEB. END SUMMARY.

2. NEB HAS AUTHORIZED IPL AN INTERIM INCREASE OF 15 CENTS PER BARREL FOR MOVING CRUDE OIL FROM EDMONTON TO MONTREAL. THE CURRENT PIPELINE TARIFF FROM EDMONTON TO BOTH TORONTO AND MONTREAL IS 60 CENTS PER BARREL, INCLUDING A CHARGE OF 5 CENTS PER BARREL FROM SARNIA EASTWARD. IN OTHER WORDS, THE SARNIA TO MONTREAL TARIFF WILL BE 20 CENTS

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PAGE 02 OTTAWA 00596 160100Z

PER BARREL. INTERPROVINCIAL HAD REQUESTED A 61.5 CENTS PER BARREL TARIFF. THE INTERIM TARIFF INCREASE IS EFFECTIVE MARCH 1.

3. PRESENT SUBSIDIES ON THE MONTREAL PIPELINE EXTENSION AND THE FEDERAL IMPORTED OIL COMPENSATION PROGRAM EQUALIZE THE DELIVERED COST OF DOMESTIC AND IMPORTED OIL AT

MONTREAL. IN ABSENCE FURTHER GOC ACTION THIS EQUILIBRIUM WILL BE UPSET ONCE THE PIPELINE TARIFF INCREASE GOES INTO EFFECT BECAUSE MONTREAL REFINERS WILL HAVE AN INCENTIVE TO CUT BACK ON THE AVERAGE 250,000 BARRELS PER DAY OF DOMESTIC CRUDE THEY RECEIVE THROUGH THE PIPELINE, WHICH WILL BE COSTING THEM MORE, AND SUBSTITUTE SUBSIDIZED IMPORTED CRUDE. BETWEEN NOW AND MARCH 1, THE GOC WILL CONSIDER POSSIBLE CHANGES IN THE SUBSIDY PROGRAMS TO DEAL WITH THIS PROBLEM. THREE ALTERNATIVE COURSES OF ACTION EXIST FOR THE GOVERNMENT, NONE OF WHICH ARE WITHOUT POLITICAL PROBLEMS:

A. DO NOTHING AND FORCE MONTREAL REFINERS TO PAY 15 CENTS PER BARREL MORE FOR CANADIAN CRUDE, GIVING THEM AN INCENTIVE TO INCREASE THEIR CONSUMPTION OF OFFSHORE CRUDE. THIS WOULD BE A DIRECT CONTRADICTION OF EXISTING ENERGY POLICY WHICH SEEKS TO REDUCE IMPORTS.

B. REDUCE THE COMPENSATION PAYMENTS ON IMPORTED OIL TO RESTORE EQUILIBRIUM IN THE DELIVERED PRICE OF DOMESTIC AND IMPORTED OIL AT MONTREAL. THIS WOULD NOT BE WELCOMED IN THE ATLANTIC PROVINCES WHICH ARE ALREADY UNHAPPY ABOUT THE PRICE DISADVANTAGE THEY SUFFER IN RELATION TO CENTRAL AND WESTERN CANADA.

C. INCREASE FEDERAL SUBSIDIES ON THE SARNIA- MONTREAL EXTENSION SO THAT MONTREAL REFINERS CAN CONTINUE TO RECEIVE CANADIAN CRUDE AT CURRENT PRICES. THIS WOULD APPEAR TO PROVINCES IN THE WEST AS YET ANOTHER LIMITED OFFICIAL USE

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PAGE 03 OTTAWA 00596 160100Z

SUBSIDY FOR MONTREAL.

4. EMBASSY HAS LEARNED FROM OFFICIALS AT DEPARTMENT OF ENERGY, MINS AND RESOURCES (EMR) THAT GOC WILL PROBABLY OPT FOR LATTER ALTERNATIVE. THEY SAID THAT THE MECHANISM FOR THIS SUBSIDY HAS NOT BEEN DETERMINED, BUT IT IS LIKELY TO BE A PAYMENT BY THE GOC DIRECTLY TO IPL IN LIEU OF THE TARIFF IPL WOULD OTHERWISE HAVE COLLECTED FROM MONTREAL REFINERS.

5. EMR OFFICIALS ARE NOT PARTICULARLY PLEASED WITH PROSPECT OF SUCH AN ARRANGEMENT BECAUSE:

A. IT WILL NOT BE HANDLED UNDER EITHER THE IMPORT COMPENSATION PROGRAM OR THE "DEFICIENCY AGREEMENT" WITH IPL UNDER WHICH GOC COVERS FIXED AND OPERATING COSTS-- BUT NOT PROFITS"--ON SARNIA TO MONTREAL EXTENSION. NEW LEGISLATIVE AUTHORITY WILL THEREFORE BE REQUIRED.

B. SOLUTION CONTRIBUTES NOTHING TOWARD REDUCING PAYMENTS
TO IPL UNDER THE DEFICIENCY AGREEMENT WHICH LAST YEAR
AMOUNTED TO \$20 MILLION.

6. NEVERTHELESS, EMB OFFICIALS FEEL THAT A COUNTER
BALANCING SUBSIDY TO IPL IS LEAST OBJECTIONABLE MEANS OF
MAINTAINING THE STATUS QUO PENDING FINAL NEB DECISION
ON RATE STRUCTURE. NEB DOES NOT EXPECT HEARINGS WILL
BE COMPLETED AND REPORT ISSUED ON IPL TARIFF RATE
UNTIL JUNE AT THE EARLIEST.
ENDERS

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Message Attributes

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